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Committee on Veterans' Affairs
U.S. Senate

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VA HEALTH CARE

Problems in Implementing Locality Pay for Nurses Not Fully Addressed

GAO/HRD-93-54

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Human Resources Division

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May 21, 1993

The Honorable John D. Rockefeller, IV
Chairman, Committee on Veterans' Affairs
United States Senate

The Honorable Frank H. Murkowski
Ranking Minority Member,
Committee on Veterans' Affairs
United States Senate

The Honorable Arlen Specter
Committee on Veterans' Affairs
United States Senate

This report responds to your committee's October 29, 1991, request for information on the Department of Veterans Affairs' (VA) implementation of a locality pay system for nurses. The report discusses the adequacy of surveys conducted by VA medical centers in setting nurse salary rates. This report updates and expands on information we presented in June 3, 1992, testimony before your committee.[1]

Background

VA employs over 39,000 registered nurses (RNs) and certified registered nurse anesthetists (CRNAs)[2] to help run its 171 medical centers and other medical facilities. Their salaries and benefits accounted for about 15 percent of VA's fiscal year 1992 health care budget of $13.7 billion.

Like other health care providers, VA has had continuing difficulties in recruiting and retaining nurses. Public Law 96-330, enacted in 1980, authorized VA to establish special salary rates for nurses. By December 1990, almost all VA medical centers had established such rates. But the medical centers continued to have recruitment and retention difficulties. For example, in 1990, annual turnover for both RNs and CRNAs was 20 percent or more, and hiring replacements frequently took from 3 to 12 months.

Because of these continuing difficulties, the Congress enacted the Nurse Pay Act of 1990 (P.L. 101-366), requiring VA to establish a locality pay

[1]VA's Implementation of the Nurse Pay Act of 1990 (GAO/T-HRD-92-35, June 3, 1992).

[2]CRNAs are graduates of two schools: (1) professional nursing schools approved by the appropriate state accrediting agency and (2) schools of anesthesia approved by the Council on Accreditation of the American Association of Nurse Anesthetists.

system for nurses. The primary intent of the act is to make the salary rates of VA medical centers in a given community competitive with those for health care facilities in the private sector. The act requires VA to reduce the number of pay grades for nurses from eight to four,[3] establishes criteria for setting minimum and maximum salary rates, and provides for cash bonuses. More details about the provisions of the locality pay system are included in appendix I.

VA medical centers are normally expected to set salary rates that are within 5 percent of the prevailing rates in the community. In setting the rates, VA is required to use salary surveys conducted by the Bureau of Labor Statistics (BLS), whenever such surveys are available. When BLS surveys are unavailable, VA is required to conduct salary surveys in a manner comparable with the Bureau's. Finally, VA regulations implementing the act require VA medical centers to conduct surveys and adjust salary rates at least annually, but no more than four times a year.

About 8 months after passage of the act, in April 1991, VA implemented the locality pay system giving medical center directors broad latitude in administering the system. Because suitable BLS data were not available, all medical centers were required to conduct a first round of salary surveys in April 1991. All medical centers conducted a second survey before the January 1992 cost of living adjustment.

The accuracy of salary rates resulting from the surveys is important for two reasons. On the one hand, rates set too high could significantly increase VA health care costs. On the other, rates set too low could limit the effectiveness of the system in improving the recruitment and retention of nurses.

Scope and Methodology

We performed our work at VA's Central Office and four of its medical centers: West Los Angeles and Long Beach, California; and Philadelphia and Lebanon, Pennsylvania. We judgmentally selected these medical centers because they have large numbers of nursing staff, large numbers of nursing vacancies, and high turnovers of nursing personnel.

To determine whether VA conducted its salary surveys in a manner comparable with BLS surveys, we interviewed VA and BLS officials, including directors as well as nursing and personnel service staffs at the medical

[3]Effective May 16, 1993, the nurse pay grade schedule was revised to reflect five grade levels—Nurse I, II, III, IV, and V.

centers visited. At each medical center visited, we solicited the views of selected nurses as to their involvement with the new system. We reviewed and analyzed documentation provided by officials from VA's Central Office, VA nursing organizations, and BLS. We also viewed video tapes used for training VA nursing and management staffs.

We carried out our review from October 1991 to September 1992 in accordance with generally accepted government auditing standards.

Results in Brief

VA's procedures for surveying local salary rates fell well short of the standards established for BLS surveys. As a result, VA's salary rates could easily be substantially higher or lower than justified. We believe that the potential for errors is sufficient that the process should be reported as a material internal control weakness.[4] The weaknesses in its procedures for setting salary rates resulted, VA officials said, from the limited time available to implement the locality pay system. The problems were not, however, corrected during the second round of surveys, and most still have not been addressed 18 months after implementation of the system.

VA Survey Methods Fall Short of BLS Standards

The survey methods VA used to establish salary rates are not comparable with those used by BLS. VA, unlike the Bureau, did not

- pretest the questionnaire used to collect salary data with a sample of respondents to help ensure the quality of the questions and survey procedures,
- provide adequate training to staff collecting the data,
- conduct personal interviews to collect survey data and verify the data obtained,
- use a well-defined system to match the job duties and responsibilities of the nurses whose salaries are being compared,
- prohibit nurses from independently gathering data used to set their own salaries, and
- validate the surveys done by most medical centers.

[4]Internal controls are intended, among other things, to provide reasonable assurances that program goals and objectives are met and that resources are adequately safeguarded and efficiently utilized. The Federal Managers' Financial Integrity Act of 1982 requires that agencies annually evaluate their internal controls and that the heads of executive agencies report to the Congress annually on the status of these controls. The reports are to state whether controls meet the objectives and comply with the internal control standards GAO established. When internal controls are inadequate, the agency must identify the weaknesses involved and describe the plans for corrective action. Appendix II describes agency requirements for identifying, reporting, and correcting internal control weaknesses and cites specific examples of internal control standards applicable to administration of the locality pay system.

Pretesting the Questionnaire Could Improve Quality

Pretesting is an important part of the process for ensuring survey quality. Responses can vary by as much as 50 percent, research has found, when there are inadequate controls over the quality of the questions and procedures.[5] When pretesting occurs and changes are minor, the survey can be used without further adjustment; if extensive, another series of pretests may be necessary.

Pretesting helps ensure that (1) the right questions are being asked, including whether the contents of each question are relevant and the respondent has the knowledge to answer the question and (2) the procedures used in conducting the surveys are adequate to ensure that valid and reliable results are obtained. BLS does extensive pretesting, which in our opinion meets this criteria. Pretesting the questionnaires, BLS officials said, usually results in modifications and improvements.

By contrast, VA did not pretest its questionnaire before the first surveys were conducted in April 1991 or determine whether changes were needed before the same questionnaire was used for the second round of surveys in November 1991. VA officials told us they did not pretest the questionnaire because of the limited time available between enactment of the Nurse Pay Act and the first salary survey. Time constraints may have limited VA's ability to pretest the questionnaire; however, VA did not evaluate the adequacy of the questionnaire after the first or second round of surveys, although it identified problems through discussions with data collectors.

Little Training Provided to Staff

VA's Central Office provided little training to those conducting the first salary surveys. For example, of the 18 data collectors conducting salary surveys at the four medical centers we visited, 12 did not receive any formal training from VA; the other 6 attended a 1-week technical training seminar. Training was particularly important because of the 18 data collectors, 8 had no prior experience in conducting salary surveys.[6]

At the Philadelphia and Lebanon VA medical centers, VA staff told us they were inadequately prepared to conduct the surveys. For example, the medical center had insufficient time to train data collectors, said a Philadelphia staff member. A Lebanon staff member stated she learned

[5]Charles Cannell and others, New Techniques for Pretesting Survey Questions (Ann Arbor, Mich.: Survey Research Center, University of Michigan, 1989).

[6]This is inconsistent with the internal control standard relating to the competency of personnel (see app. II).

little about duties and responsibilities of the positions being surveyed because job matches were not discussed thoroughly during training.

BLS requires its data collectors to be certified, which involves a process of 2 to 3 years of course work, on-the-job training, and passing written tests. VA could not reasonably be expected to adopt such requirements given the limited time it had to implement the locality pay system, or the time between the first and second surveys. VA attempted to have BLS surveyors conduct the first round of surveys. BLS was unable to do so, however, because of other work load demands. We believe that VA could have, however, worked more closely with BLS to establish an appropriate mix of training, experience, and testing for its staff. In addition, more training, along with testing, could have been provided between the first and second surveys. Another option would be to contract out for the surveys.

VA officials plan to hold a second technical seminar for data collectors in fiscal year 1993. Even though VA has not provided additional training, data collectors are gaining experience through repeating the survey process. Medical centers we visited generally used the same staff to conduct the first and second surveys. These four medical centers told us that the same group of data collectors will also be used in future surveys.

Salary Rates Obtained Through Telephone Calls Without Verification

VA officials collected salary rates through telephone calls to competing health care facilities, but did not verify the data obtained.[7] By contrast, to obtain its survey data, BLS conducts personal interviews at health care facilities.

Further, the VA Office of the Inspector General reported that some medical centers inappropriately adjusted survey data to compensate for what they considered questionable data from hospitals that the centers claimed were providing "low rates."[8]

Neither VA nor BLS has authority to demand access to health care facility records, but BLS, through the voluntary cooperation of medical facilities, verifies the data provided in its interviews by examining salary information. In our opinion, VA should attempt to similarly verify the data provided, through either reviews of salary documentation or some other means, such as written confirmation of the telephone conversations.

[7]This is inconsistent with the internal control standard relating to documentation (see app. II).

[8]Special Review of Nurse Locality Pay in Metropolitan Washington, D.C., VA's Office of Inspector General, Report No: 2AM-A99-083 (Washington, D.C., Mar. 31, 1992).

After our June 1992 testimony, VA revised its regulations to allow medical center directors to maintain existing rates of pay if they find that the salary data collected is invalid. Data collection teams from some VA medical centers now double check the salary rates gathered, VA officials told us. VA has no formal requirement, however, that salary data be verified. And, VA was unable to provide the names of the specific medical centers that double check the data gathered.

Attempting to verify the data provided, VA officials think, may further hamper VA's efforts to obtain salary data from competing health care facilities. These facilities may be more reluctant to cooperate with VA because VA is in direct competition with them, whereas BLS, in the surveys it conducts is an independent agency not in competition with the facilities it surveys.

VA Did Not Establish Effective Job Matching

VA did not follow an effective approach to ensure that job matches are accurate.[9] VA data collectors received only general training on how to conduct job matches, and they conducted the matches over the telephone. As was the case with the salary data, VA did not have a system to validate the job matches.[10]

Conducting job matches was difficult, officials at medical centers we visited said, because (1) facilities usually had not read the information the medical center sent them about VA's position classification system, (2) salaries for senior-level nurses are often negotiated in the private sector, and (3) the duties and responsibilities of these nurses vary widely, depending on the size and mission of the health care facility.

BLS devotes considerable resources to ensure that job matches are accurate. For example, BLS data collectors are trained in how to conduct job matches. To obtain appropriate matches, they visit job sites, inspect the facility, and interview employees. In addition, BLS has a job-match validation system through which a sample of job matches is reviewed and sites are revisited to validate or correct salary data as appropriate.

It may be too difficult for VA to follow such a rigorous approach, but VA could provide additional training on how to (1) perform job matches,

[9]The accuracy of data collected in a salary survey depends on the proper matching of duties, responsibilities, and educational requirements.

[10]This approach is inconsistent with internal control standards relating to documentation and competency of personnel (see app. II).

(2) request copies of job descriptions, or (3) use a second data collector to validate the data obtained.

VA provided no additional training or guidance on job matches before the second round of salary surveys in November 1991. VA officials, however, (1) placed greater emphasis on job matching as part of VA's second technical training seminar on March 8, 1993, and (2) plan to develop standard job descriptions for administrative, nonsupervisory, and intensive care nursing positions, similar to those currently being used at some medical centers. For purposes of further improving job matching, VA now requires that medical centers consider the size and complexity of competing health care facilities.

Nurse Involvement Can Represent a Conflict of Interest

Nurse involvement in collecting salary data can create a conflict of interest. VA's Office of General Counsel said that it is unclear as to whether nurse involvement in data collection would be permissible. But the Office suggested that to help avoid potential conflicts, VA adopt a policy that excludes beneficiaries of special salary rate increases from any substantive involvement in setting their own pay rates. Similarly, VA's Inspector General recommended that nurse participation in the surveys be limited to the extent practicable. If nurses are involved in the surveys, the Inspector General said, they should not have sole responsibility over the data gathered.

Nurses at the four medical centers we visited had substantive involvement in collecting salary data for their own and their supervisors' pay grades. Because they worked independently, using information obtained by telephone, and no verification of the data collected took place, these nurses essentially had sole responsibility for much of the data gathered and used to set their own and their supervisors' salaries.[11]

In July 1992, VA issued a circular to medical centers concerning nurse involvement in the data collection process. To avoid potential conflict, the circular states, nurses (1) should be prohibited from directly or indirectly influencing their own pay and (2) should not be involved in the analysis of pay data nor participate in developing pay schedules. In addition, through teleconference calls, VA encouraged nurse involvement in data collection only up to a certain point. At that point, the medical center director and other appropriate staff then analyze the collected data to determine pay rates.

[11]This is inconsistent with the internal control standard concerning separation of duties (see app. II).

VA's actions do not, however, address the problem of independent collection of salary data without verification. An adequate separation of duties to prevent a conflict of interest may exist in those locations where a second data collector is (1) present when the salary data are collected or (2) verifies the accuracy of the data collected.

VA's Central Office Did Not Review Most Surveys

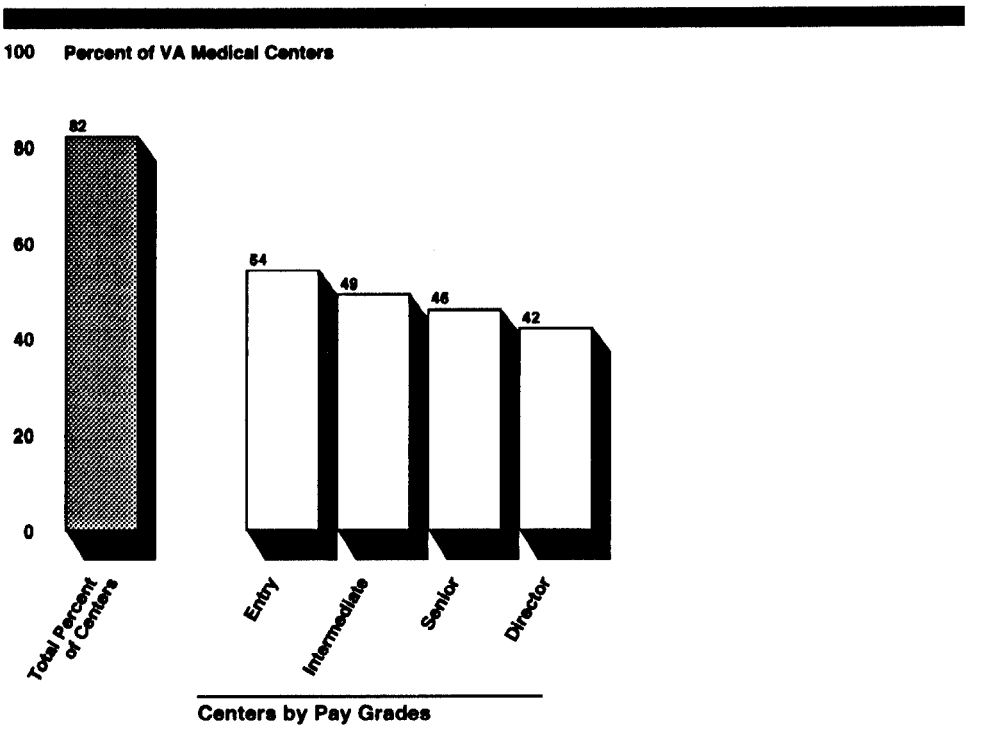
VA's Central Office reviewed only one-fourth of the medical center surveys conducted in April 1991, despite widely varying salary increases, including a more than doubling of the beginning step of nurse salary rates for selected pay grades at 18 medical centers[12] (see app. III).[13] Further, VA regulations suggest that Central Office review surveys and take corrective action to ensure compliance with the provisions of locality pay.

For the period ending September 1991, the rate of increase in nurses salaries varied depending on pay grade. At 82 percent of VA medical centers, registered nurses' and certified registered nurse anesthetists' salaries for one or more pay grades increased by 20 percent or more, as shown in figure 1.

[12]Of the 18 medical centers, 14 included increases for nurse anesthetists at the intermediate level; the remaining 4 were increases for registered nurses at the director's level.

[13]This is inconsistent with the internal control standard requiring continuous review and approval of assigned work (see app. II).

Figure 1: Percentage of VA Medical Centers Where Pay Grades Increased 20 Percent or More



Source: Comparison of Basic Pay Rates, VA report to the Senate and House Veterans' Affairs Committees (Attachment C) (Washington, D.C., Dec. 1991).

The largest increases, typically, took place at the entry grade for registered nurses. Other, more senior (intermediate grade and above) registered nurses at the same medical centers typically received smaller raises. At about two-thirds of VA medical centers, salary increases were 5 percent or less for at least one pay grade. Dramatic increases in salaries at the entry level, coupled with slight increases at the senior level, led to further pay compression. Not surprisingly, during our meetings, nurses at the higher grades expressed the most concern about the implementation of the Nurse Pay Act.

VA's Central Office reviewed the April 1991 survey data collected by 42 of the 171 VA medical centers. Thirty-three of the 42 medical centers submitted insufficient documentation to justify their pay rates and were asked to provide additional information. Of these 33, 14 had set beginning

rates of pay that were too high, VA's Central Office concluded, and they were required to conduct new surveys, reduce salaries, or both.

VA selected medical centers for review primarily because they had large increases in salary rates. We agree that it was appropriate to focus on such centers, but VA also needs to review centers with little or no increase in salary rates. This is because the act's intent was to make VA nurses' pay competitive with other health care facilities. If the survey methods resulted in VA medical centers' setting rates that are too low, the law may not have its intended effect of improving the recruitment and retention of nurses.

In its review of the implementation of the locality pay system at the Washington, D.C., VA medical center, VA's Office of the Inspector General similarly concluded that all proposed salary rate changes should be monitored and detailed reviews conducted of medical centers when potential problems are identified.

VA, however, did not review the adequacy of the April 1991 surveys conducted by the remaining 129 medical centers nor that of any of the surveys conducted in November 1991. After our June 1992 testimony, VA officials told us that they would review summaries of all medical center salary surveys conducted since January 1992. If discrepancies are found, all surveys conducted by the medical center will, VA officials said, be reviewed. VA officials plan to compare medical center data from previous and current surveys, they said, on a continuous basis so as to identify any inconsistencies in nurse salary rates. VA's Central Office will, they said, conduct an extensive review of any medical center where inconsistencies are found.

Recommendations

We recommend that the Secretary of Veterans Affairs

- report VA's administration of the locality pay system to the Office of Management and Budget, as a material internal control weakness under the Federal Managers' Financial Integrity Act (FMFIA) and
- develop a plan and a timetable for correcting the internal control weaknesses in the system.

Agency Comments

In a letter dated April 23, 1993, the Secretary of Veterans Affairs concurred with our recommendations and acknowledged that more can be done to

refine the locality pay system to improve its validity, accuracy, and reliability (see app. IV). He said that the locality pay system will be on the agenda for VA's upcoming FMFIA organizational meetings. At those meetings the responsible program managers will discuss the system and, as appropriate, identify measurable milestones to correct any problems.

The results of these discussions will, he said, provide the basis for VA's decision on whether to report this issue to the Congress as a material weakness. In the event the materiality of nurse locality pay is considered inappropriate to be included in the FMFIA report, he said, VA will still monitor corrective actions through full implementation. Subsequent to the FMFIA reporting decision, VA will also develop a plan and timetable for correcting the internal control weaknesses in the system. The Secretary also identified, planned, and completed actions to address concerns presented in our report. Specifically, VA said that it

- held its second national conference on March 8, 1993, to provide additional data collection training, including guidance on interviewing and job matching, to personnelists and nurses;
- will advise field facilities that the personnelists who coordinate surveys should personally review all data collected, compare the data with previous surveys, and recontact survey establishments to verify any inconsistencies;
- will revise VA's policy on job matching to require data collectors to request job descriptions and salary tables and to work in pairs that include at least one personnelist;
- will amend VA's policy to require that all data be collected by teams that include a personnelist to avoid nurses from independently gathering data used to set their own salaries; and
- completed audits of 117 of 171 facilities' salary survey and will complete audits of all facilities by May 16, 1993.

Technical comments were also provided by the Secretary. We have incorporated these comments where appropriate.

As arranged with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days after its issue date. At that time, we will send copies to interested parties and make them available to others on request.

If you have any questions about this report, please call me at (202) 512-7101. Other major contributors to this report are listed in appendix V.

David P. Baine
Director, Federal Health
Care Delivery Issues

Contents

Abbreviations

BLS	Bureau of Labor Statistics
CRNA	certified registered nurse anesthetist
EQA	Enhanced Qualifications or Assignments
FMFIA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
RN	registered nurse
VA	Department of Veterans Affairs

Major Provisions of VA's Locality Pay System for Nurses

Pay Grades

The new locality pay system reduced the eight grades under the old system to four grades as shown in table I.1.

Table I.1: Comparison of Locality Pay System Grades

Old system	New system[a]
Junior and associate	Entry grade
Full and intermediate	Intermediate grade
Senior and chief	Senior grade
Assistant director and director	Director grade

[a]Effective May 16, 1993, the nurse pay grade schedule was revised to reflect five grade levels—Nurse I, II, III, IV, and V.

For each grade, separate qualification requirements are used to recognize employees with higher qualifications or more complex assignments.

Rate Ranges and Number of Steps in Pay Grades

The normal rate range for each grade will be 133 percent of the first step in the grade. This range provides 12 steps in each grade with a 3-percent value for each step. Each medical center director must establish which step in the grade will constitute the beginning rate of pay for employees with Enhanced Qualifications or Assignments (EQA).

Directors for each medical center can also request, and regional directors can approve, an expansion of rate ranges from 133 percent up to 175 percent[1] based on recruitment and retention needs. The Department of Veterans Affairs Central Office will conduct a technical review of these requests before the regional director's approval.

Salary Survey

VA will conduct salary surveys, using a methodology developed in consultation with the Bureau of Labor Statistics.

Labor Market Area Definitions

The local labor market areas will be constructed using the Office of Management and Budget Metropolitan Statistical Areas or the Federal Wage System definitions. Directors of geographically isolated medical centers will develop their own labor market areas, and all medical center directors will be allowed to expand their areas to reflect local labor market conditions.

[1]At 175 percent, the number of steps in a grade will be 26.

Survey Universe	Using American Hospital Association listings, each VA medical center will identify all hospitals in its local labor market area.
Survey Data	Nonfederal positions will be compared using VA functional statements that reflect the minimum qualifications for each grade.
Benefits Data	The Nurse Pay Act requires the medical centers to survey and use benefits data to the extent that they are reasonably quantifiable.
Cash Awards	A medical center director must provide for cash awards of up to $2,000 for specialty certification within a reasonable time after the employee presents proof; the criteria are set locally. Medical center directors can also approve cash awards of up to $2,000 for exemplary performance and achievement.
Waiting Periods for Periodic Step Increase for 133-Percent Range	Waiting periods for periodic step increases for employees without EQA will be 52 weeks to advance to steps 2 to 4; 104 weeks to advance to steps 5, 6, and 7; and 156 weeks to advance to steps 8 and above. For EQA employees, 52 weeks are required to advance to steps 2, 3, and 4. To advance to higher EQA steps requires a waiting period of 104 weeks a step.
Promotions	A two-step adjustment is provided for promotions between grades and between the levels of a grade.
Head Nurse Advancements	A two-step adjustment to base pay will also be given to registered nurses who occupy head nurse positions.
Executive Nurse Pay	Salaries of the deputy director of nursing service, the regional nurse(s), other nurses assigned to the region, and nurses in VA's Central Office are tied to the comparable grade at the closest VA medical center with an assignment similar in complexity and responsibilities. In addition, position differentials of 6 percent for deputy director of nursing service, VA's

Central Office; and 3 percent for regional nurse(s) will be authorized.[2] Salaries of other nurses in the VA's Central Office and the regions are tied to corresponding grades at a comparable VA medical center.

Other Occupations

The Secretary of VA has authority, based on a recommendation by the VA Chief Medical Director, to extend coverage to other title 38 occupations, except physicians and dentists, and the "hybrids" (for example, pharmacists). At this time, coverage is limited to nurses and nurse anesthetists.

[2]A differential may not allow the nurse to exceed the maximum rate of the grade, but it is considered basic pay for premium pay, lump-sum payments for annual leave, retirement, work injury compensation, life and health insurance, and severance pay.

Requirements for Identifying, Reporting, and Correcting Internal Control Weaknesses

Internal controls are intended, among other things, to provide reasonable assurances that program goals and objectives are met and that resources are adequately safeguarded and efficiently utilized. The Federal Managers' Financial Integrity Act of 1982 requires that (1) agencies annually evaluate their internal controls and (2) the heads of executive agencies report to the Congress annually on the status of these controls. The reports are to state whether controls meet objectives and comply with the internal control standards GAO established. When internal controls are inadequate, the agency must identify the weaknesses involved and describe the plans for corrective action.

The standards for internal controls in the federal government require that internal controls provide reasonable assurance that the objectives of the controls will be accomplished. A number of techniques are essential to providing the greatest assurance that internal control objectives will be achieved. These specific internal control standards include the following:

Documentation: Internal controls, as well as all transactions and other significant events, are to be clearly documented; the documentation is to be readily available for examination. Documentation should be complete and accurate; and it should facilitate tracing and verifying the transaction or event and related information.

Separation of duties: Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be done separately by different people. To reduce the risk of error, waste, or wrongful acts or the risk of their going undetected, no one person should control all key aspects of a transaction or event. Rather, duties and responsibilities should be assigned systematically to a number of people to ensure that effective checks and balances exist.

Supervision: Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. Managers should continuously review and approve the assigned work of their staffs. Managers should also provide their staffs with the necessary guidance and training to help ensure that errors, waste, and wrongful acts are minimized and that specific management directives are achieved.

Competent personnel: Managers and employees are to maintain a level of competence that allows them to accomplish their assigned duties. Staffing decisions should include pertinent verification of education and

experience; once on the job, employees should be given the necessary formal and on-the-job training.

Prompt resolution of audit findings: Managers are to (1) promptly evaluate findings and recommendations reported by auditors, (2) determine proper actions in response to audit findings and recommendations, and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention. The audit resolution process begins when the results of an audit are reported to management and ends only after action has been taken that (1) corrects identified deficiencies, (2) produces improvements, or (3) demonstrates the audit findings and recommendations are either invalid or do not warrant management action.

Eighteen VA Medical Centers Where the First Step of Nurse Annual Salary Rates Doubled for Selected Grades Under Locality Pay

Center	Grade	Old rate	New rate	Percent increase
Amarillo, Tex.	I	$ 24,705	$ 55,000	123
Bronx, N.Y.	D	50,342	101,300	101
Brooklyn, N.Y.	D	50,342	101,300	101
Danville, Ill.	I	24,705	52,295	112
Denver, Colo.	I	24,705	50,767	105
Des Moines, Ia.	I	29,067	59,912	106
Fayetteville, N.C.	I	24,705	51,211	107
Iowa City, Ia.	I	24,576	53,403	117
Lincoln, Nebr.	I	24,705	51,000	106
Long Beach, Calif.	I	24,705	60,224	144
Madison, Wis.	I	24,705	52,334	112
Montrose, N.Y.	D	50,342	101,300	101
Mountain Home, Tenn.	I	24,705	51,796	110
New York, N.Y.	D	50,342	101,300	101
Salisbury, N.C.	I	24,705	50,353	104
Seattle, Wash.	I	24,705	52,968	114
St. Louis, Mo.	I	24,705	55,120	123
Temple, Tex.	I	24,705	57,259	132

Note:
I=intermediate grade; D=director grade. Four of the examples represented an increase for a single grade in one labor market (New York City). The remaining 14 increases were for the Intermediate (beginning grade) for nurse anesthetists, a grade for which VA significantly lagged behind non-VA rates in many communities.

Source: Comparison of Basic Pay Rates, VA report to the Senate and House Veterans' Affairs Committees (Attachment C) (Washington, D.C., Dec. 1991).

Comments From the Department of Veterans Affairs

THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

APR 2 3 1993

Mr. David P. Baine
Director, Federal Health Care
Delivery Issues
U. S. General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Baine,

I have received your draft report, **VA HEALTH CARE: Problems in Implementing Locality Pay for Nurses Not Fully Addressed** (GAO/HRD-93-54), and I appreciate the opportunity to comment on it. Your findings identify the difficulty that the Department of Veterans Affairs (VA) has experienced in our initial attempts to plan and implement the provisions of the Nurse Pay Act of 1990. This legislation was the first major restructuring of nurse pay since Title 38 was established in 1946. Furthermore, it provided for the implementation of the first locality-based white collar pay system in the Federal government.

The 1990 law gave VA approximately 7 months to develop, test, and train VA personnel to implement and establish an entirely new locality pay system (LPS) for over 40,000 Veterans Health Administration (VHA) nurses and nurse anesthetists in 171 VA medical centers. Notwithstanding the short deadline, in April 1991, VA implemented the LPS, as Congress intended. This resulted in improved nurse recruitment and retention. Furthermore, since implementing LPS, we continue to identify and refine the LPS to improve its validity, accuracy, and reliability.

We realize that effective management controls are not in place to govern the administration of the nurse locality pay system. Therefore, the implementation of LPS will be carefully reviewed to ensure proper controls are in place to prevent waste, fraud, and mismanagement. This issue will be monitored under the Department's Management Control process. As part of the process, responsible managers will review and discuss this issue to determine the materiality of the weakness and develop a plan of action to include a timetable for correcting the problems associated with the LPS implementation. The results of the discussions will provide the basis for a departmental decision on the materiality of the weakness for possible reporting to the Office of Management and Budget in the FY 1993 Federal Managers' Financial Integrity Act (FMFIA) Report.

Mr. David P. Baine

I believe it is essential for anyone reading your report to do so in the context of the limitations under, which VA has had to implement this legislation. Your June 1992 testimony before the Congress notes that the Bureau of Labor Statistics (BLS) requires its surveyors to be certified, which involves a 2 to 3 year process of course work, on-the-job training, and passing written exams. VA had no such advantage. In fact, when we sought BLS assistance in developing our local salary survey techniques, we were afforded minimal BLS cooperation because of resource constraints and other priorities.

During the period you provided to comment on this report, we conducted a second national training conference for surveyors to share their experiences from the first rounds of surveys. We provided additional data collection training to personnelists and nurses. This training included guidance on interviewing and job matching. The Department has made the ongoing improvement of the implementation of nurse pay legislation a high priority. We believe that the effective management of the nurse pay program enhances the career rewards for our single largest group of employees, VA nurses.

The enclosure details comments we have to your report and provides corrections to some technical inaccuracies. Thank you for the opportunity to comment on your report.

Sincerely yours,

Jesse Brown

Jesse Brown

Enclosure
JB:vz

Enclosure

DEPARTMENT OF VETERANS AFFAIRS COMMENTS TO
GAO DRAFT REPORT, **VA HEALTH CARE: Problems in Implementing Locality Pay for Nurses Not Fully Addressed**
(GAO/HRD-93-54)

GAO recommends that I

- **report VA's administration of the locality pay system to the Office of Management and Budget, as a material internal control weakness under the Federal Managers' Financial Integrity Act; and**

- **develop a plan and timetable for correcting the internal control weaknesses in the system.**

Agree - VA nurse locality pay will be on the agenda for VA's upcoming Federal Managers' Financial Integrity Act (FMFIA) organizational meetings. During these meetings, the responsible program managers will discuss the issues and, as appropriate, identify measurable milestones to correct any identified problems. The results of this discussion will provide the basis for a departmental decision on the identification of this issue as a material weakness. In the event the materiality of nurse locality pay is considered inappropriate to be included in the FMFIA report, we will still monitor corrective actions within the Department through full implementation. Subsequent to the FMFIA reporting decision, we will develop a plan and timetable for correcting the internal control weaknesses in the system.

Since LPS implementation, our experiences with this complex new system have formed the basis for identifying and effecting refinements to improve its validity and reliability. However, this broad statutory delegation to field facility Directors of pay-setting authority has increased the potential for pay-setting errors.

* * *

GAO's report includes several criticisms of VA's data collection methodology. The following comments address these criticisms as they are presented in the GAO report. We are also providing comments on other concerns about the draft report.

Pretesting

GAO points out that VA did not pretest the survey instrument with a sample of respondents to help ensure the quality of the questions and survey procedures. While GAO agrees we didn't have time to pretest the survey instrument before LPS implementation, it states

that we should have pretested it before the second and third rounds of surveys.

In September 1991, Veterans Health Administration (VHA) and Office of Personnel and Labor Relations (OP&LR) officials established a Nurse Pay Task Force. This task force, comprised of subject matter and program area representatives, reviewed the data collection process and the survey instrument. We adopted several task force recommendations. Among them was to redefine "minimum rate of pay" as the lowest rate of pay that is actually paid or would be paid to a new hire for a corresponding position. After we adopted the task force recommendations, we then used information collected during our audits to validate the survey instrument. Therefore, in our opinion, pretesting was unnecessary.

Training

GAO states that VA did not adequately train data collectors but admits the data collectors are gaining experience through the repeated on-the-job training of conducting surveys.

In its congressional testimony, GAO mentioned that BLS takes three years to train its data collectors. We attempted to draw on BLS training and vigorously pursued their assistance in developing LPS survey methodology. While we appreciate the assistance we did receive from BLS officials, they advised us that they could not provide the level of support that we requested due to resource constraints that were compounded by the demands of preparing for General Schedule locality pay implementation.

Despite limited assistance from BLS and with only a few months to implement LPS, VA developed its own training program. In February 1991, OP&LR and VHA presented a comprehensive training program for personnelists from each facility as well as a number of Chief Nurses and nurse recruiters. The training included guidance on salary surveys, salary schedule construction, and pay administration. It was excellent preparation for data collectors within the parameters of available funding and time before the implementation deadline. Conference attendees brought what they had learned back to their facilities and trained other data collectors.

In addition, frequent conference calls dedicated to the LPS were conducted for field personnel. OP&LR staff were always available by telephone to provide advice to field data collectors.

However, we realize that had there been more time before implementation, we and our field facilities could have provided more training to data collectors. Therefore, during the week of March 8, 1993, we provided additional data-collection training to personnelists and nurses. This training included guidance on interviewing and job matching.

Personal Interviews

GAO criticized VA for not conducting personal interviews to collect survey data and to verify the data collected.

We are concerned that requiring on-site visits for all data collection would significantly reduce participation by survey establishments. Our data collectors have indicated that survey establishments consider on-site visits to be time-consuming and to require more preparation than telephone interviews. For this reason, they are reluctant or even refuse to permit on-site visits.

While we are getting accurate data through the use of telephone interviews, we recognize that there are some benefits to a telephone/on-site mix. Therefore, we will revise LPS policy to recommend on-site visits when they are not likely to affect participation and which will require requesting an on-site visit if the establishment has not been visited in the last three years.

Additionally, we will advise field facilities that the personnelists who coordinate surveys should personally review all data collected, compare the data with previous surveys, review summaries, and contact survey establishments again to verify any inconsistent data.

Job-Matching

GAO indicated that VA did not use a well-defined job-matching system which would include adequate training on job-matching, requesting copies of job descriptions and salary tables, and using a second data collector to validate data.

A well defined job-matching system was part of LPS implementation. It was based on thorough qualification standards and survey job descriptions. Our data collectors included personnelists knowledgeable about job-matching concepts. (See discussion above under Training for additional information about our job-matching training.)

However, we recognize that GAO has made recommendations which could improve our job-matching system. Therefore, we will revise VA policy to require data collectors to request job descriptions and salary tables and to work in pairs which include at least one personnelist.

Nurse Participation

GAO indicated that VA did not prohibit nurses from independently gathering data used to set their own salaries.

We have recommended to our field facilities that nurses not independently gather data. We will amend VA policy to require that all data be collected by teams that include a personnelist.

Audits

GAO criticized VA for not auditing most of the surveys.

We agree with GAO that surveys need to be audited. We are auditing the surveys for all 171 medical centers. To date, we have completed audits of 117 facilities. We will complete audits of the remaining facilities by May 16, 1993.

Miscellaneous Comments:

Now on p. 2.

The footnote on Page 2 of the report erroneously indicates that the number of nurse pay grades changed from four to five on November 4, 1992, the date of the "Veterans Health Care Act of 1992" (Public Law 102-585). The law provides that this change will be effective May 16, 1993.

Now on p. 21.

The examples used on page 27 of the report to show that salaries had doubled at 18 medical centers are misleading. Four of the examples represented an increase for a single grade in one labor market (New York City). The remaining 14 increases were for the beginning grade for nurse anesthetists, a grade for which VA significantly lagged behind non-VA rates in many communities.

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